



MARTIN O'MALLEY
GOVERNOR

STATE HOUSE
100 STATE Circle
ANNAPOLIS, MARYLAND 21401-1925
(410) 974-3901
(TOLL FREE) 1-800-811-8336

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FY2013 BUDGET PRESENTATION:

A Balanced Approach

REMARKS BY GOVERNOR MARTIN O'MALLEY

Annapolis, Maryland
January 18, 2012

Thank you for joining us. We're boiling down some of the very complex operations that go into this common corporation we share called our state government. Now I have a few slides by way of presentation and then we'll open it up to any questions you all might have, and I'll do my very best to answer them.

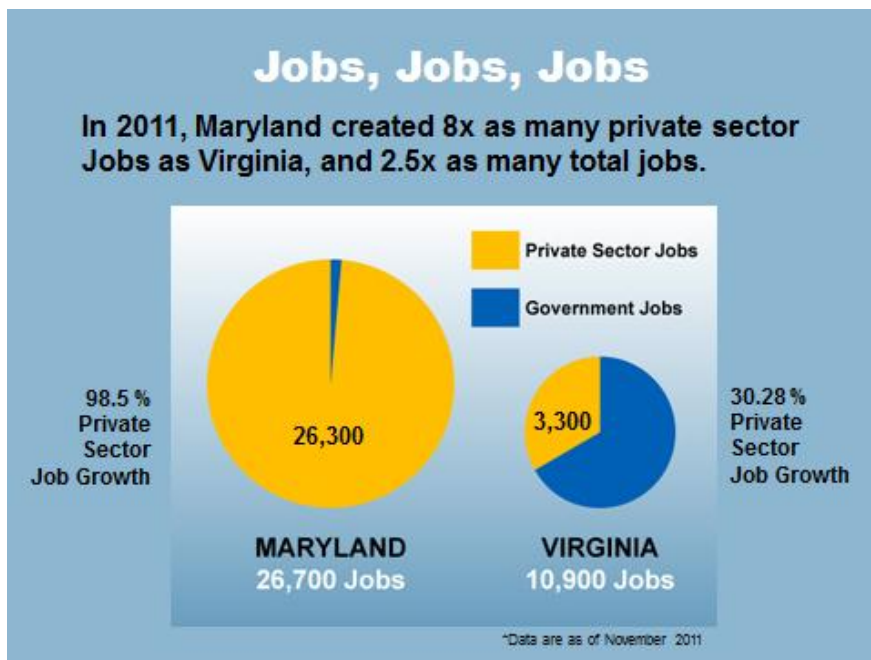
From the first day that we walked into this responsibility, we've had our fair share of challenges. And we've pulled people together for a balanced approach that resulted in the Special Session that was not terribly popular but was fiscally responsible. And as a result, even when we went into the unprecedented job loss and economic challenge of the prolonged recession, Maryland was able to weather that storm, and we were able to weather it better than other states. We were one of the very few that were able to defend a Triple A bond rating through that.

Every time we've had to make these decisions, there's been one interest in the forefront of our thinking, and that was, what is in the best interests of the hardworking people and families of our State? And that's how we make every decision. This is not an exercise in popularity. It's not a

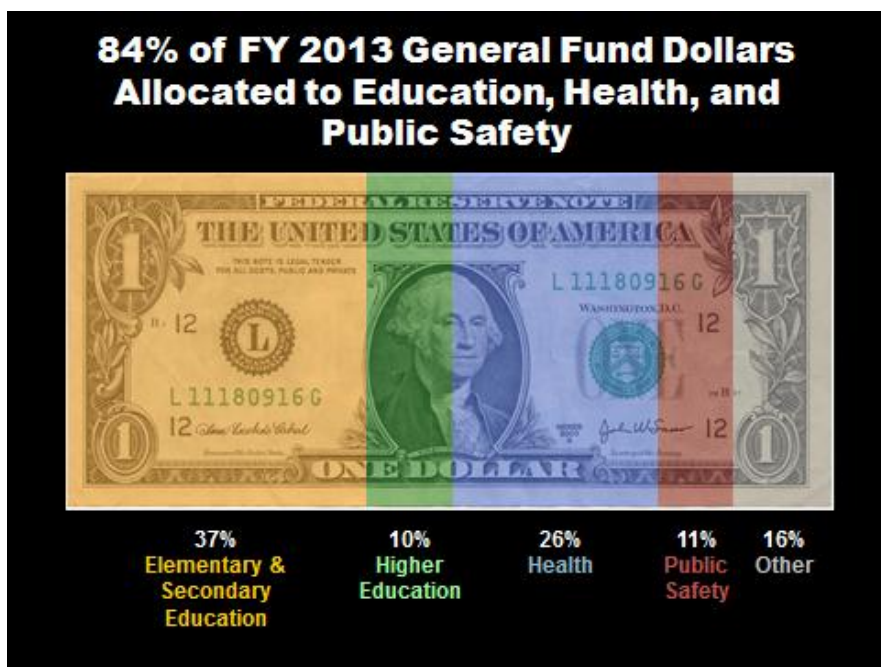


matter of greasing the weathervane. It's a matter of figuring out what are the best decisions to make on behalf of the families we serve. That's what they employ us to do on their behalf. So let me walk you through some of this.

Priority number one is jobs. And, again, this is probably – let me run through a couple of good news slides. We have had the best year of new job creation that we've had in any year since this recession hit. As of the first eleven months of last year, that's almost 27,000 net new jobs that have been created in our State. Primarily, they've been created in the private sector, which is kind of counter-intuitive. It is a rate of job creation that is twice what our good neighbors in the Commonwealth of Virginia have been able to accomplish. And in the private sector, it is eight and a half times the number of new jobs that our good neighbors in Virginia have been able to create coming out of this recession.



Stated a different way, we have recovered 43 percent of the jobs we lost in the Bush recession, while nationally we have recovered 28 percent of the jobs that we've lost; our neighbors in Virginia, 30 percent. So, everything about these decisions impacts the most important variable in every family's considerations around their own kitchen table, which is the job of the breadwinner or breadwinners in that family.



So, this is how our general fund dollar breaks down, that 37 percent is now allocated to elementary and secondary education; 10 percent is higher education; 26 percent is health, Josh Sharfstein; and 11 percent is public safety. Sixteen percent is everything else. Well, what is everything else? It's the Legislature; it's the Department of Agriculture, Buddy; it's the Department of the Environment; it's the Department of Natural

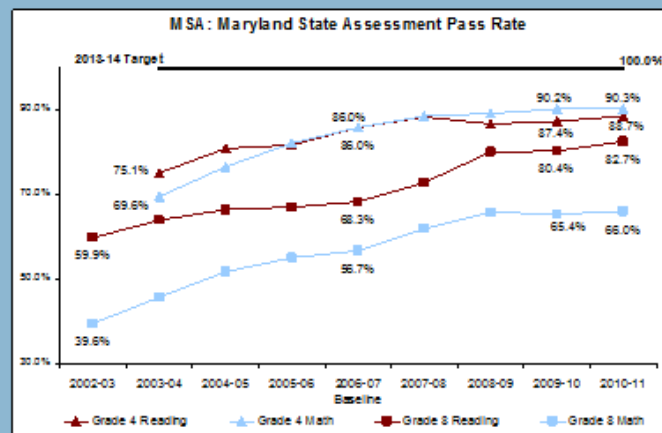
Resources; it is Department of General Services. It is everything else is in that 16 percent.

And, so, while we protect what most Maryland families would regard as the priorities of our State government, namely public health, public education and public safety, that's 84 percent of everything we do in the operating budget. And in addition to the recessionary pressures, we have chosen as a people under Thornton to increase by about a billion dollars over this same period of time the dollars that we invest in that primary economic development investment, which is education.

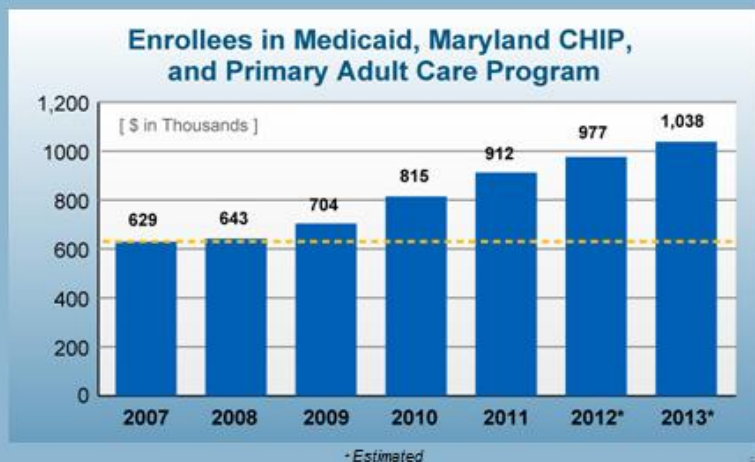
All of these slides, by the way, will be up afterwards on the State website. Okay, let me go to the next one here. This is student achievement in our State. There is no other state that can claim since these rankings have started from *Education Week* Magazine to have been named number one schools in America four years in a row. It did not happen by chance; it happened by choice. And part of those choices involved what our teachers and our students and our parents are doing to improve their test scores. That, ladies and gentlemen, is an example of a graph moving in the right direction.

This is the expansion that we've made in covering people with health insurance. That's over 400,000 people since 2007, in part made possible by the difficult vote that the legislature passed on the tobacco tax some four or five years ago. That's 400,000 people, over half of them children, who now have health insurance that did not have it before.

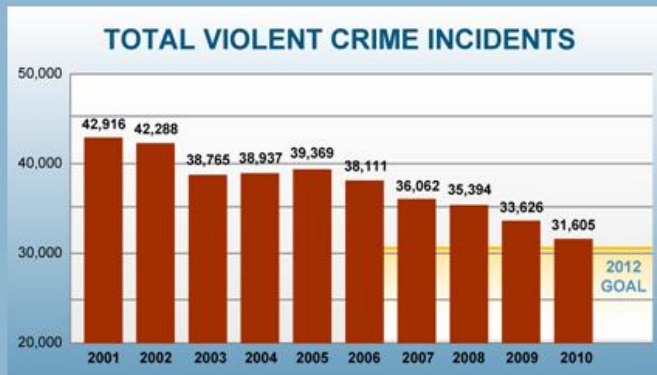
Student Achievement Rising



Expanding Access to Health Care to More than 400,000 Previously Uninsured Marylanders Over 6 Years

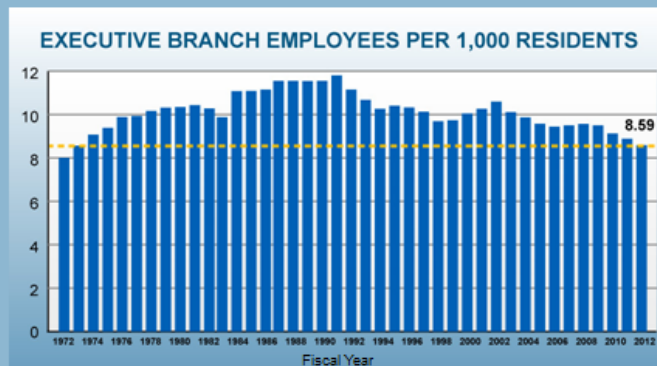


Driving Down Violent Crime 17% Since 2006



This is violent crime. We have driven violent crime down to an all-time low. Again, this happens not by chance but because of the courage of police officers, better technology, better coordination and cooperation. We set a goal in 2007 of a 20 percent reduction by 2012. We're now at 17 percent reduction.

Fewest State Government Employees per Maryland Resident Since FY 1973



This is Executive Branch employees per 1,000 residents; in other words, the size of our State employment related to our citizens. We have the fewest State Government employees now per 1,000 Maryland residents since 1973. And the last U.S. Census number I saw, I think we had the 43rd-lowest state and local government bureaucracy of any of the states in the Union, or eighth from the leanest.

Fiscal Responsibility

- It all starts with fiscal responsibility
- Triple A bond rating certified by all three rating agencies
 - One of only 8 states
 - Ratings re-affirmed in 2011

"The stable outlook reflects our view of Maryland's economic strength and historically strong financial and debt management policies,... the state has proactively responded to the recent budget structural imbalance"

- Standard and Poor's, upon affirming Maryland's AAA Bond Rating

Fiscal responsibility, there is no progress without fiscal responsibility. I've kind of gone over this – Moody's, Fitch, Standard and Poor's, time and again, have acknowledged our ability to make adjustments and to apply a balanced approach to protect the priorities that make us a competitive state.

This is, for those of you that weren't here, for those of you that were, this is nostalgia, the Special Session, we attacked the inherited structural deficit of \$1.7 billion, various components of that, including big cuts in spending, \$550 million, which would be dwarfed as time went on by other cuts, but at the time it was unprecedented. \$550 million in cuts.

We increased revenues by \$800 million in three primary ways. We had the slots legislation. And we were scheduled to have reduced, erased, eliminated that structural deficit by Fiscal Year 2012 with a \$290 million cash reserve.

Resolved an Inherited Structural Deficit During the 2007 Special Session

- The inherited structural budget deficit approached \$1.7 billion
- Special Session Actions
 - Reduced spending by \$550 million in FY09
 - Increased General Fund revenues by more than \$800 million in FY09
 - Approved new recurring revenue source from Video Lottery Terminals (VLT's)
 - Erased structural deficit by FY12
 - Projected FY12 cash surplus of \$290 million

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Post Special Session Projections

IMPACT OF 2007 SPECIAL SESSION ON PROJECTED BUDGET SHORTFALL

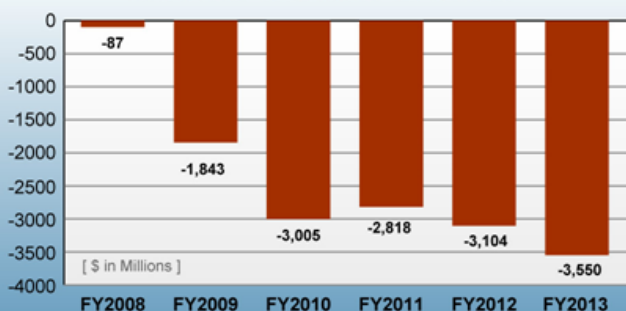


That was what it looked like pre-recession in our forecasting, and then the recession hit. And that graph represents, just as I'm sure every business and every family has a similar graph to show what the recession did to their budget, that's what it did to our collective budget in this common platform of our State Government.

Impact of National Recession on Maryland Revenues

Since Dec 2007 Board of Estimates Forecast, State Revenues Have Underperformed by More than \$14 Billion

GENERAL FUND REVENUES

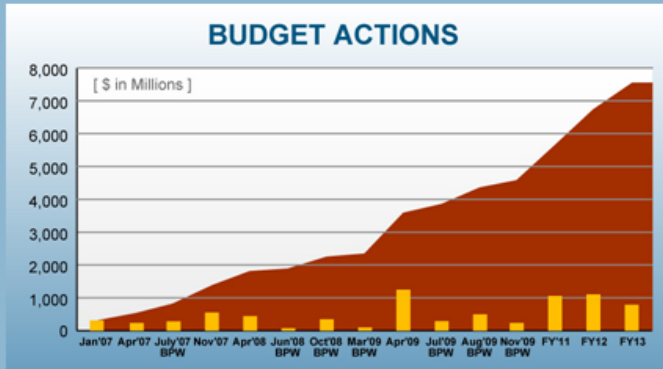


That's how State revenues underperformed, to use an accounting term, since this recession hit – an underperformance of more than \$14 billion.



Steady Diet of Cuts

Cumulative Reductions During O'Malley-Brown Administration of \$7.5 Billion (Including \$800 Million in Total Funds Reductions in FY2013)



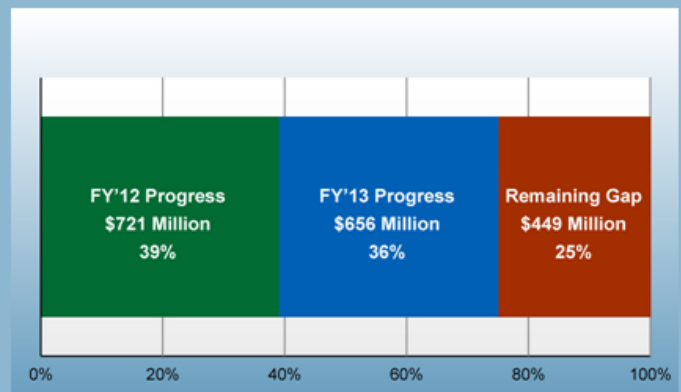
Our primary means of dealing with that, ever since the Special Session, has been to cut, cut, and cut again, a constant diet of cuts. And, in fact, one year here at the Board of Public Works, I guess that would have been 2008, see it here 2008 down below, all of those happened at the Board of Public Works. It seemed like every three months we were coming back here for another \$200, 300, 400 million as revenues eroded beneath our feet. I'm sorry, Eloise Foster, our Secretary of Budget and Management with us, as well as Christian Johansson, Economic Development, and Bob Summers at Department of Environment.

Every budget we've submitted has been within spending affordability guidelines and everyone's had a bunch of unpleasant and difficult, tough choices and cuts. The legislature in the – is it the Spending Affordability Committee, Matt? Kind of laid out a blueprint for us a few years ago insisting that we take a big chunk off of this new deficit? I guess we still call it a structural deficit. A more truthful word might be the recessionary deficit, because it's primarily caused by the revenue underperformance.

But this is what we've done. Back in '12, almost 40 percent of it. In this budget we're proposing we reduce it by 36 percent. That still remains 25 percent of the work to be done.

Some of you recall the prior actions that we've taken, eliminating a lot of things, closing the Maryland House of Corrections, as well as Rosewood, Upper Shore Mental Health. Some of the new actions that we'll take in this budget include closing assisted living facilities at Spring Grove and Springfield Hospital

Steady Progress in Closing the Recession Driven Deficit



Streamlining Government

PRIOR ACTIONS

- Consolidated State Print Shops (\$500k)
- Centralized Classification Unit (\$396k)
- Applied Stricter Standard for Payment of Emergency Room Claims & Enhanced Audits of Out-of-State Hospitals (\$5.5 M)
- Eliminated DNR Helicopter Unit (\$372k)
- Consolidated Correctional Pre-Release Facilities (\$4.7 M)
- Eliminated Grant for Wine Promotion & Destination Imagination
- Downsized MHEC (\$0.7M)
- Eliminated 14 DJS management positions (\$1M)
- Reduced OT at DPSCS (\$4M)
- Improved Management of Accident Leave (\$3M)
- Discontinue High School Civics Assessment (\$1.9M)
- Voluntary Separation Program (\$39 M/653 State jobs)

NEW ACTIONS

- Close assisted living facilities at Spring Grove & Springfield Hospital Centers (\$3.8 M)
- Insource Fisheries Contract (\$700k)
- Medicaid Smart Payer Initiatives (\$22M)
- Eliminate duplicative modified educational assessment for students (\$2.5 M)

Facility Closures During O'Malley-Brown Administration

- Maryland House of Correction
- DBED Foreign Offices (3)
- Upper Shore Planning Office
- State Hospitals (5)
- State Police Barracks – Annapolis
- Dismas House
- Welcome Centers (8)
- Animal Health Laboratories
- O'Farrell Center

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Centers. We're going to be insourcing a fisheries contract. Now, we believe we can do the same job we used to do outsourcing, and we can do it cheaper and save \$700,000.

There are things we're doing to upgrade our Medicaid. In fact, who asked about this? Len? I think you asked about this in one of our pressers a while back. Medicaid Smart Payer initiatives, Josh, part of that involves the Medicaid, the waste, fraud and abuse recovery and identifying double payments or overpayments and things of that nature, too. And there are some other things in there, as well. We've reduced the size of state government in the executive administration, executive branch, by 5,500 positions.

Reducing the Size of State Government

- **More than 5,500 positions abolished during the O'Malley-Brown Administration**
 - 667 positions abolished through voluntary separation program for savings in total funds of \$40 million
 - Ongoing annual savings from position abolitions exceeds \$200 million
- **Fewer executive branch positions today than in 2007.**

State Employees Share of the Sacrifice

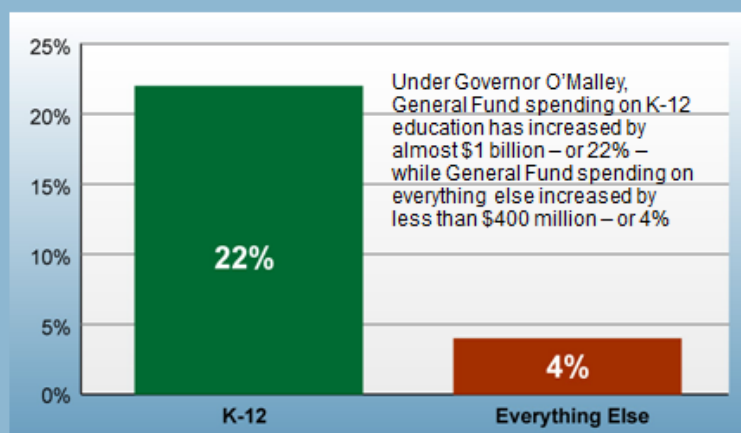
- **State workers absorbed more than \$700 million in salary and benefit cuts**
 - Furloughs and temporary salary reductions FY09 - FY11
 - No step increases (FY09 - FY12) and no COLA/bonus (FY10 & FY11)
 - Additional ongoing retirement contributions/prescription drug cost sharing (FY 12)

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There are fewer executive branch positions today than in 2007. I think about 5,000 – we've got 5,000 fewer state employees, sharing the sacrifice. You all were out there at Lawyers' Mall last year when we had to reform our pension system, ask all of our state employees to do more. We did more. And they've had to forego COLAs, had to endure furloughs and other things over these last four years. So, let me say that very, very clearly how appreciative I am of State employees who have been making sacrifices over these last four years, doing difficult jobs, doing it without the assistance of as many colleagues as they had a few years ago, and having to forego and endure – forego COLAs, endure furloughs and other things.

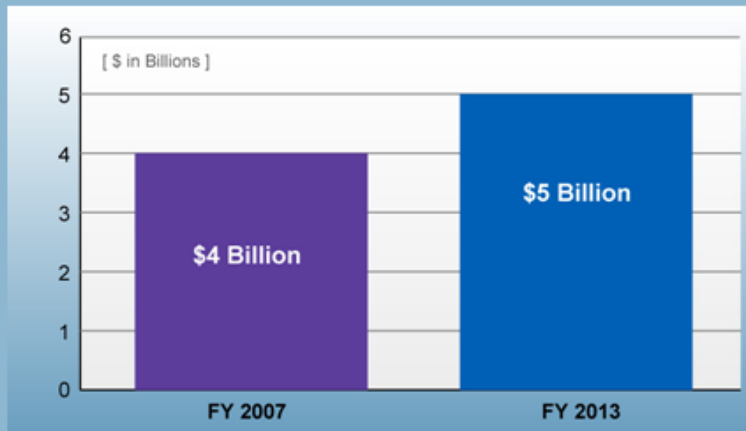
Okay, this is General Fund spending growth. K-12 education has increased by 22 percent since 2007. Everything else has only increased 4 percent.

General Fund Spending Growth FY 2007 to FY 2013



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Direct K-12 Education Aid



And that's a nutshell or a snapshot of the increases in K-12 education, from \$4 billion to \$5 billion from the State, 2007 to 2013. Public education, while those of us who take our children to public schools in Maryland will proudly say in most instances I take my child to a county school, the truth in the matter is the State and the county share that important responsibility.

Slide 18 is probably – for those of you that had to boil this down for your readership, slide 18 is probably the best overview, putting all of it on one page as far as what this budget does. It has 1.9 percent growth compared to last year. There are \$800 million in total fund reductions, cuts, or in the case of teacher pension, a shift of about \$240 million. Total reductions now in the life of the O'Malley/Brown Administration, not that we ran a campaign that could foresee this, it's \$7.5 billion in reductions and cuts.

General Fund is reduced by \$56 million versus 2012. And the structural outlook has been improved to the tune of about \$650 million. I need glasses at the age of 49. Spending affordability guidelines, we've met those for the sixth year in a row. In the past, some years, some administrations, we choose to meet them one year and not meet them another year. This administration, because of the good people we have like Secretary Foster and her staff, every single year we have submitted a budget that is within spending affordability guidelines, in addition to being balanced, which is required by the State Constitution here as it is in virtually every state.

A Fiscally Responsible Budget

- **Total funds growth kept to 1.9%**
(excluding appropriation to Rainy Day Fund)
 - FY13 budget includes ~\$800 M in **total fund** reductions
 - **Total reductions now total \$7.5 B**
- **General Fund reduced by \$56 M vs FY12**
(excluding appropriation to Rainy Day Fund)
 - Includes \$610 M in General Fund spending reductions
- **Structural outlook for FY13 improved by +\$650 M**
- **Spending Affordability Guidelines Met for 6th yr in a Row**
 - Proposed spending cuts and revenue actions exceed committee goal, reduce structural deficit by ~59%
- **Rainy Day maintained at 5% of revenues (\$673 M)**
& a fund balance of \$164 M is retained (\$837 M total)

J U S T 1 . 9 % G R O W T H
\$ 5 6 M L E S S G F S P E N D I N G
STRUCTURAL OUTLOOK \uparrow +\$650M
M E T S P E N D I N G GUIDELINES 6 th IN A ROW
\$673 M R A I N Y D A Y F U N D

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Our Rainy Day Fund, we maintain at 5 percent, and a fund balance of \$164 million bringing it to \$837 million in cash reserves. So, that's kind of a nutshell, the best overview slide of the broad view of this budget. That was slide 18.

This is another good one. We see here the highlights and tough choices in the balanced approach. This is the best budget we've been able to submit in terms of its support and investment and job creation, particularly in the construction trades, building things that we absolutely, positively need. As a state, we've done a good job on educating. Last year with InvestMaryland, we continued to become more competitive in terms of innovating. And in this budget, this is our best budget in terms of

investments and rebuilding the critical infrastructure upon which flows the commerce of our State, the lives of our people: transportation, water, waste water, school construction and other things.

So, job creation is our number one priority, and this budget is the best budget in terms of new job creation and supporting jobs that we have been able to put forward since the recession hit. There are a lot of tough choices in here, \$610 million of this budget balancing is achieved by reductions and cuts in the General Fund. We also have always maintained a balanced approach. While it is true, as was reported in one of my favorite daily periodicals, we have relied pretty exclusively on cuts for the last four years.

In this budget, though, it does contain difficult choices to maintain that balanced approach involving \$311 million in new revenues. And those new revenues are achieved primarily by capping deductions on higher earners in our State and also rolling back and eliminating the personal exemption, also for higher earners. Stated another way, while eight out of 10 Marylanders will see no change in terms of their income tax refund check from the State, two out of ten Marylanders will receive a lower amount in their refund check because they will be paying a higher amount because of the capping of deductions and the rollback of exemptions.

**FY2013 Budget Highlights:
Tough Choices & a Balanced Approach**

- **Job Creation is our #1 Priority:**
\$4 billion of operating/capital spending focused on jobs and job creation
- **We've Made Tough Choices:**
55%—or \$610 million—of budget balancing actions are General Fund cuts
- **We've Taken a Balanced Approach—Including New Revenues:**
\$311 million in new revenues by closing loopholes, modest caps on deductions and phasing out exemptions for higher earners

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Let me walk you through that in a second. This is – these are the cuts and the shifts. The most controversial one is the teacher pension. For about six years, we have been having this conversation. The State of Maryland, unlike other states, not only is pretty unique in the investments that we make in school construction, but we’re probably the only one right now that covers 100 percent of the teacher retirement cost. In fairness to the counties, it must be pointed out that they cover the Social Security aspects involved in a teacher’s retirement. So, and they should get some credit for that.

Tough Choices

\$610 Million of Net General Fund Reductions
– 55% of Budget-Balancing Actions

- Share Teachers' Retirement Costs w/ Local Governments (\$239 million)
- Constrain Medicaid Hospital Costs/Divert Patients to Community (\$85 million)
- Cap Rate Increases for Most Medicaid Providers at 1% -1.5% (\$63 million)
- Medicaid Smart Payer Initiatives & Federal Revenue Maximization (\$63 million)
 - Earn Federal Performance Incentives
 - Maximize Federal Fund Recoveries for Services Provided
 - Combat Efforts of Other Payers to Shift Costs to Medicaid
 - Align Provider Payment Rates with Regional Standards
 - Enhance Utilization Review
- Fund Debt Service Costs with Bond Premiums (\$55 million)
- Level Fund Most Local Aid Programs (\$29 million)
- Employee Health Insurance Costs (\$21 million)
- Facility Closures & In-sourcing (\$6 million)
- 149 Position Abolitions (\$3 million) – 68 in bargaining units, 9 of which are filled

But as part of our move towards better and more equitable funding throughout our State, one of the things, the responsibilities that the State picked up was the teacher pension cost, 100 percent of that. I have become convinced that some better sharing of that responsibility is in order, primarily because the counties are much closer to the negotiating table than the State is. Another way of expressing that is if – as contracts are negotiated, if you’re not covering much of the cost of pension benefits, you haven’t the incentive at the negotiating table to keep them within the metes and bounds of the parameters of fiscal responsibility. In fact, one might even be tempted to save on salary concessions at the expense of loading up what’s put on the State tab in terms of pension concessions.

There’s also constraints of Medicaid hospital costs because DHMH, because public health is such a big part of our State’s budget that every year our Secretary of Health has to burn through a lot of sharpened pencils in order to protect people’s health and also reduce costs with caps and wait increases for most Medicaid providers. Medicaid Smart Payer initiative, we’re earning some federal performance incentives on that, maximizing federal fund recoveries, some other things as well, funding debt service costs with bond premiums; we’re level funding most local aid formulas. That means with the police aid formulas and other things that go locally. Employee health insurance costs, a savings of \$21 million; facility closures and insourcing. And there are 149 position abolishments in this budget, most of those the result of closing those assisted living facilities I mentioned at the outset, Springfield and Spring Grove, right?



There is \$104 million redirection existing state revenue streams to the general fund. \$311 million in new general fund revenue is generated in the following way: \$182 million by capping income tax deductions for higher earners and phasing out exemptions for higher earners; \$21 million from defending Maryland retailers by requiring online sellers to actually collect the Maryland sales tax; \$19 million by aligning our tax on other tobacco products in line with what we did on cigarettes four years ago; \$20 million by closing tax loopholes for Maryland-mined coal; telecom companies, the coins and bullion thing, I know I approved that one and somebody else at this table will provide you with details if you're interested in the coins and bullion one; and other miscellaneous items.

There is \$19 million in level funding with commissions and lottery agent proceeds; \$59 million in settlements with pharmaceutical companies and insurance companies, notably the MAIF reserve; \$2 million from online lottery sales; and \$78 million in revenue due to anticipated extension of the federal payroll tax.

Eight out of 10 Marylanders will see no change; two out of 10 Marylanders will be paying more as a practical matter, seeing less coming back in their state tax refund check. We're phasing out exemptions for higher earners, reduced from \$2,400 to \$1,200 per person for families earning from \$150,000 to \$175,000, and exemptions are eliminated for families above \$175,000.

As a practical matter, I mean, one example of this that we've run and know that DLS will run other examples. A family of four earning \$150,000 would pay \$191 more or see \$191 less coming back in their state refund check as a practical matter. I don't like asking for this; I don't like doing this.

A Balanced Approach

- **\$104 M re-direction of existing state revenue streams to general fund**
- **\$311 M of new general fund revenue**
 - \$182 million by capping income tax deductions and phasing-out exemptions for high earners.
 - \$21 million from defending Maryland retailers by requiring online sellers to collect sales tax.
 - \$19 million by aligning tax on other tobacco products with the cigarette tax.
 - \$20 million by closing tax loopholes for MD mined coal (\$6 million), telecom companies (\$9 million), coins/bullion (\$3 million), and other miscellaneous items (\$2 million)
 - \$9 million level funding of commissions for lottery agents
 - \$59 million settlements with pharmaceutical/insurance companies
 - \$2 million from online lottery sales
- **\$78 M of revenue due to anticipated extension of federal payroll tax cut**

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Deduction & Exemption Adjustments for Higher Earners

- **No change in income tax rates**
- 8 out of 10 Marylanders: **No change**
- 2 out of 10 Marylanders:
 - **Cap Income Tax Deductions for Higher Earners**
 - Capped at 90% for incomes above \$100k
 - Capped at 80% for incomes above \$200k
 - **Phase-out Exemptions for Higher Earners**
 - Exemptions reduced from \$2,400 to \$1,200 per person for singles \$100-\$125k and couples \$150-\$175k
 - Exemptions eliminated for singles above \$125k and couples above \$175k

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There are many unpleasant aspects of this responsibility. But in order to get us through this recession in advance of other states and in order to protect the priorities of the people of our State and the futures of our children, there are difficult things we need to ask of one another in these difficult times. And this is one of them. This is by no means out of any lack of respect for those that we are asking more of. This is a – in my view of the unpopular choices that all of us wish we did not have to make, this is the fairest way to go about this. And, again, eight out of 10 Marylanders will see no change.

Teachers' Retirement – Cost Drivers

- Teachers' retirement costs driven by :
 - Benefit Design/Employee Cost Sharing;
 - Investment performance; and
 - Growth in teacher salaries
- Reforms approved by the General Assembly during the 2011 session will restore the health of the employee and teachers' retirement systems and generate net savings for the State
 - Constrained long-term pension costs by modifying benefits for new employees, increasing the employee contribution, and linking retiree COLAs for new employees to investment performance.
 - Systems expected to achieve 80% funding – a nationally recognized benchmark - by 2021
 - 100% funding achieved by 2030
 - Net savings to State over ten-years of more than \$1 billion
- Recent investment performance exceeds goal
 - Investment returns have exceeded target of 7.75% in each of last two years

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Cost drivers, we're going to return a little bit to teachers' retirement. I think you all are probably pretty fairly versed in this. The cost drivers to this are the benefit design, employee cost sharing, investment performance, and growth in teacher salaries; reforms that were approved by the General Assembly last year, if you recall, while some leaders wanted to, in that year, shift the pension responsibilities to the counties, we said, look, we shouldn't be talking about sharing or shifting until we come together to fix it and to create a more sustainable way to defend and define

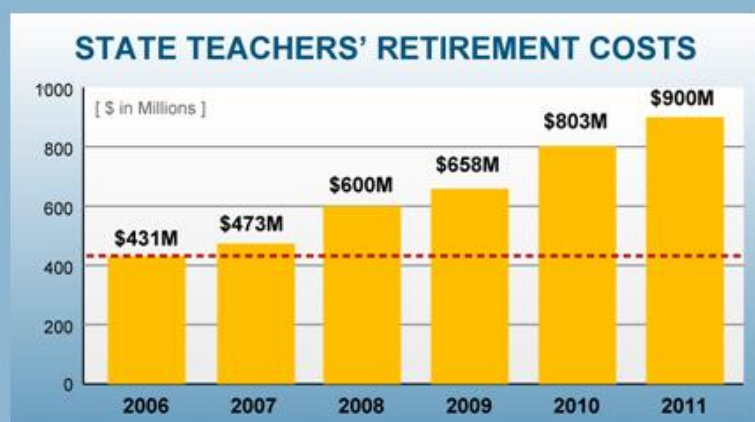
benefit pension plans, not only for state employees but also for teachers. So, that's what we spent our time doing in the last session.

We did a number of reforms here from the 2011 session. We are on track to get to 100 percent funding by 2030. Recent investment performance has actually been pretty good at 7.75 percent for each of the last two years.

This is a representation of a state teachers' retirement cost and our experience with them. Since 2006, it has more than doubled, actually, from \$431 million to \$900 million. And that is as of the recent year.

What slide is that one in case we want to go back to this? Twenty-four, thank you.

State Teachers' Retirement Costs More Than Doubled Over Five Years



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Our proposal would require local jurisdictions – I’m going to say this twice now – our proposal would require local jurisdictions to pay 50 percent of the combined costs of Social Security, which the counties are already covering, and the teacher retirement costs – other teacher retirements payments and costs that the State is currently paying. So, you combine what the counties are already doing on Social Security, you combine what the State is already doing on teacher retirement, you put them both together into one amount, you split it down the

middle, give the counties credit for what they’re already doing, and then ask them to cover the increment that brings them up to all 24 jurisdictions combined together to carry in equality with what the State is doing. And that number comes to about \$239 million of additional cost for the teacher pensions that we are asking the counties to pick up.

Therefore, in this year’s budget, there is \$244.5 million in fiscal relief provided to the counties in this State budget in order to cover that cost for most every county in the State. There are some that will have to cover a difference of a million or \$2 million, but for the most part, what we have presented the county executives around the State, well, yesterday, from MACO who joined us, is a plan that because of the capping of the deductions and the rollback of the exemptions for the highest earners, the higher earners, the 20 percent, there will be new revenues in this budget. And because it is on the income tax, whereas you may know in Maryland we have a local component of that income tax, there will be \$111 million in this first year that will go to county governments, that they can use to cover the increase in their share of the retirement cost.

There will be \$40 million from closing a loophole that allows entities to create business corporations, LLCs, solely for the purpose of avoiding paying taxes on real estate transactions, recordation tax, that overwhelmingly goes to the counties. There will be \$37 million by repealing the required local repayment in the accounting reserve. Some of you may recall that in 2009, that part of the budget balance exercise in that session, at the suggestion of MACO, involved using \$367 million from the reserve account in the collection of that income tax.

Responsibly Sharing Teacher Pension Costs

- Administration proposal would require local jurisdictions to pay 50% of combined costs of social security and teachers’ retirement contributions. Locals currently pay one-third of combined costs.
 - The State is currently responsible for 100% of local teacher retirement expenses.
 - Locals currently pay 0% of pension contributions and 100% of the cost of social security contributions.
- Proposal shares \$239 million of costs with local governments

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MACO made the argument that we never go below that cushion. There was almost a sort of reserve, if you will, that we never go below it, and even in these recession times we've never gone below it, but nonetheless, there was an agreement that they pay back \$37 million a year every year, beginning in this year. That is \$37 million they will not have to pay back this year. In fact, we are proposing that they not pay that back. And repealing it lessens the requirement that would amount to \$367 million spread over all the counties over the next 10 years that they will not have to pay back.

There's \$19.5 million from adjustments to the disparity grant. What does this mean? This means that we will be increasing on a one-time basis this year by \$19.5 million the dollars that we budget for the disparity grant. Why \$19.5 million? Because that's what's required, in essence, to offset the sort of hit that some of our counties would take from this shift in the pensions. In other words, if you might imagine with the deductions and the exemptions, those counties that have the greatest number of earners in that top 20 percent of our State realize a greater yield than those that have fewer numbers of citizens who earn in that top 20 percent. And, therefore, to cover this in this first year, we're adding \$19.5 million to the disparity grant.

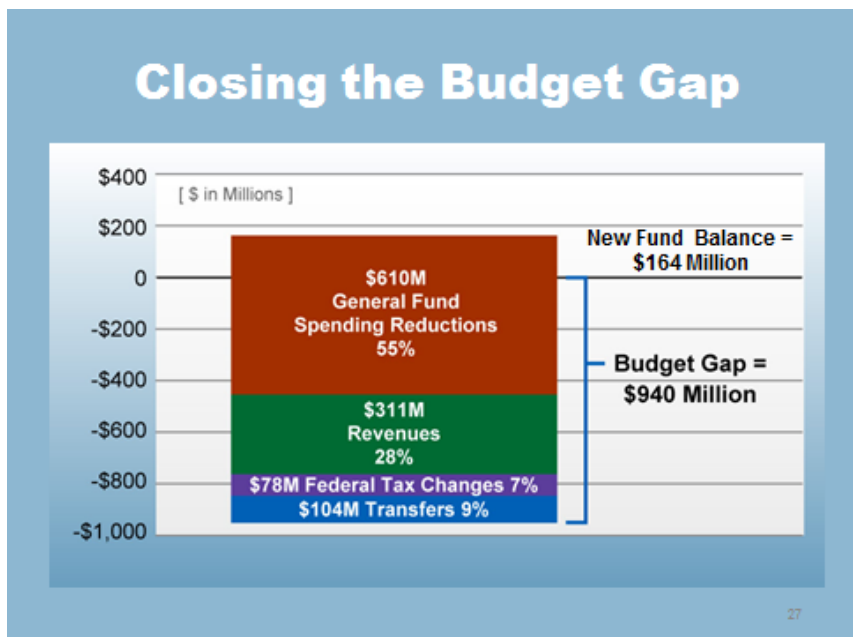
There is also, coincidentally, a different \$37 million number that is on a recurring basis, sunset of requirement that the counties reimburse the State for teacher retirement costs associated with federally funded positions. And that is \$37 million on an ongoing basis. So, that was slide number 26 for those of you that are taking notes and might want to go back to that one later.

Responsibly Sharing Teacher Pension Costs

\$244.5 Million of fiscal relief for local governments

- \$111 million from deduction and exemption adjustments for the highest earners
- \$40 million from closing a loophole that allows entities to create business relationships solely for the purpose of avoiding paying taxes on real estate transactions
- \$37 million (\$367 million over 10 years) by repealing the required local re-payment to accounting reserve
- \$19.5 million from adjustments to disparity grant aid
- \$37 million from sunset of requirement that locals reimburse State for teachers' retirement costs associated with federally funded positions (ongoing)

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That's just a different way of representing how we get to that balance point, the zero line. \$610 million of this is the general fund cuts and reductions; \$311 is the new revenues; \$78 is the federal



tax changes; \$104 is transfers.

There's a lot in this budget in terms of our fight against violent crime.

Maryland still has an unacceptably high level of violent crime by my view and I think most others. One might take the view that violent crime is one life too many. There's \$45 million in police aid; \$20 million in local law enforcement grants; \$52 million for the continued development of our CAD RMS system, that system that allows not only communication of voice but also data so that we're better able to share information with an integrated approach to targeting repeat violent offenders; \$7.5 million to improve law

enforcement communication and interoperability; \$4.4 million, 93 additional positions, one of the few places where we're seeing additional positions, and that's on Dr. Sharfstein's recommendation, at Clifton T. Perkins Hospital, where all of you will recall two homicides happening within the span of a few days at Clifton T. Perkins Hospital where we have a lot of very, very troubled patients; \$51 million for Maryland Emergency Management Agency; funds for two new trooper classes in order to maintain force strength.

Driving Down Violent Crime

Total public safety budget of more than \$2.2 B

- **\$45.4 M in police aid** to local governments and municipalities
- **\$20.8 M in local law enforcement grants** to target domestic violence, substance abuse, and gun trafficking
- **\$52 M for the continued development of Maryland's Public Safety Communications System**
- **\$6.5 M to improve law enforcement communication** through continued implementation of the Computer Aided Dispatch & Records Management System (CAD RMS). Brings total investment to \$29.5 M
- **\$4.4 M to bolster staffing (93 positions) and patient safety** at Clifton T. Perkins Hospital
- **\$51 million for Maryland Emergency Management Agency (MEMA)**
- **Funds for two new trooper classes** to maintain force strength

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Expanding Skills & Education

- **Record direct aid for Maryland's #1 ranked public schools (\$5 billion)**
 - Brings six-year total of direct aid funding for K-12 schools to \$28.7 billion.
 - Fourth consecutive year of full funding for GCEI
- **\$373 million for public school construction bringing 6 year total to \$2 billion**
 - 6 consecutive years of meeting or exceeding Kopp Commission recommendations
 - Largest ever commitment to school construction over a six-year period

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There is record funding – record direct aid for Maryland's number one ranked public schools. The six-year total for those of you counting along was \$28.7 billion we have invested in giving our children the best public school education of any state in America. It's the fourth consecutive year of full funding for the Geographic Cost of Education Index. There is \$373 million for public school construction.

Many of you will recall when Lieutenant Governor Brown and I were first campaigning; we highlighted the need to get our children out of the

temporary learning shacks that were proliferating around our State. If you want to see one of



Maryland's new schools and you're based here in Annapolis, I encourage you to go over and knock on the door at Germantown Elementary just around the corner where kids were piled up on each other in these temporary trailers, and now you have really a state-of-the-art school building, a prototype building, by the way, based on designs of ones that have been already built before with SmartBoards now. And, so, this budget is proposing \$373 million. This is the second strongest investment that we've made in school construction. It is needed. It also supports a lot of jobs in the construction industry.

There is a total of \$5.4 billion for higher education. That's from all sources. We are holding tuition increases at our university system to just 3 percent this year. I don't believe you'll find another state that has a lower percentage increase – you may, in North Dakota or Wyoming or someplace. But I think it will probably be one of the lowest percentage increases in the country.

There's \$217 million for direct aid to local community colleges, which have been seeing their enrollment increase since people, courageous moms and dads, keeping the family together, also returning to upskill.

Expanding Skills & Education

\$5.4 Billion for Higher Education

- \$9.5 million to keep tuition growth at 3% for University System of Maryland and Morgan State University, only 3rd increase in seven years
- \$217 million for direct aid to local community colleges
- \$41 million for Baltimore City Community College
- \$2.5 million incentive funding for community colleges that hold tuition increase at or below 3%

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Supporting a Healthier Maryland

- **\$7 B for health care coverage** for more than 1 million
- **\$27 M to support individuals with developmental disabilities**, which leverages \$20 million of matching federal dollars, for an unprecedented investment in support
- **\$27 M to expand community based-services** as alternative to institutional care
 - Serve 480 additional elderly and disabled patients with long-term health care needs in the community
 - Improve case management & raise provider payment rates
- **\$5 M to fight substance abuse**, support long-term recovery and housing for substance abuse patients
- **\$4 M to reduce health disparities** in targeted communities through a new pilot program

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There is \$7 billion for health care coverage for more than 1 million Marylanders. There's \$27 million to expand community-based services; \$27 million to support individuals with developmental disabilities; \$5 million to fight substance abuse; \$4 million to reduce health disparities. The \$5 million is actually an increase in the substance abuse. Very good story in terms for any of you that want to write on another day about overdose deaths being battled down, lives being saved, and actual expansion of the availability of drug treatment, even in a very down economy.



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There's a lot of good things in here for the health of the Chesapeake Bay: \$63.5 million for the Bay Restoration Fund; \$25 million for the trust fund; \$28 million to improve the health of the Chesapeake Bay; investing in capital to upgrade storm water infrastructure; \$23 million for state park improvements for those of you – some of you were out there at the coldest press conference yet in the new year at Sandy and Very Cold and Windy Point State Park; \$5 million to implement the Watershed Implementation Plan; maintaining full funding for Program Open Space; \$18 million for cover crops, which I think is a record for cover crops. Every year, I think we do another record on cover crops.

Building a Sustainable Future

- **\$63.5 M Bay Restoration Fund** revenue enhancement, creating 780 jobs
- **\$25 M for Bay 2010 Trust Fund**, brings total five year investment to \$88 million.
- **\$28 M to improve the health of the Chesapeake Bay** by investing capital to upgrade storm water infrastructure
- **\$23 M for State Park improvements**, upgrades and green projects
- **\$5 M to implement the Watershed Implementation Plan**
- **Maintain full funding for Program Open Space**
- **\$18 M for cover crops** which enrolled a record 567,000 acres in FY12.

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Creating Jobs & Fostering Innovation

\$4 B Focused on Job Creation

- **\$3.6 B capital budget** will leverage \$1.4 B in local government & private sector construction investment that will support a total of 52,000 jobs
- **\$23 M for InvestMaryland** to spur new job creation
- **\$15 M for the Maryland Economic Development Assistance Fund**
- **\$1.1 M conditional loan to Bechtel Corporation** which will retain a minimum of 1,250 high-wage jobs in MD through 2018
- **\$2 M to promote the 200th Anniversary of the War of 1812** and the birth of the star spangled banner
- **\$7.5 M for Film Production Tax Credit**
- **\$7 M for Sustainable Communities Tax Credit** to promote urban redevelopment & create jobs
- **\$8 M in tax credits to spur investment in biotechnology**
- **\$10.4 M for Stem Cell Research**, equals \$101.6 M invested since 2007

The most important aspect of this budget, by my view, is that it's the strongest budget we've submitted in terms of job creation and investments in infrastructure. We will lead to another day of discussions of any enhancements to our transportation infrastructure and investments, but this budget does not have those enhancements, but it does have the following: \$3.6 billion in capital that will leverage another \$1.4 billion in local government investment, most of



that in school construction, where local governments are concerned. The total rolloff, as we count it, is about 51,000 jobs that the capital investments in this budget support – 51,000 jobs in the construction sector that has been so badly wracked by the challenges in our housing sector.

\$23 million for InvestMaryland. That was the innovation and investment initiative that we passed last year. \$15 million for the Maryland Economic Development Assistance Fund, MEDAF for those of you that prefer acronyms. \$1.1 million conditional loan to Bechtel to retain 1,250 jobs in Maryland. \$2 million to promote the bicentennial upcoming of the birth of the Star Spangled Banner, going to be a big event, and raising far more in private dollars, as well as a match federally through the coin that was passed.

\$7.5 million for the film production tax credit, which the General Assembly, in their wisdom, passed. There is \$7 million for the Sustainable Communities Tax Credit; \$8 million for the Biotechnology Tax Credit; \$10.4 million for stem cell research, I know that many of you keep an eye on that. The total amount since 2007 that we've invested in the healing power of stem cell research – and I'll mention also its job creation power – is \$101 million.

State construction investment supports directly 37,000 jobs in Fiscal Year 13 – 17,000 of that is state facilities, school construction and the like. 19,000 of those jobs will come from the investments in transportation projects. That slide, Matt, is number? Thirty-four. Memo to self, write the slide numbers bigger next time.

That's another snapshot of the capital budget, jobs impact. Oh, Bay Restoration Fund, let me talk about it. Bay Restoration Fund, a.k.a. the Flush Tax, is a flat fee right now of a flat tax of \$2.50, which means that if you have a big swimming pool and seven full baths, you pay the same amount as a widow living in the 1600 block of West North Avenue pays on a monthly basis.

There were some recommendations to triple that. I'm not going to propose tripling that. I don't believe that we should triple that, but I

FY13 Capital Budget = \$3.6 billion

- **State construction investment will support over 37,000 jobs in FY13**
 - \$1.6 B for State facilities & capital programs— supporting 17,820 jobs
 - \$2 B for transportation projects - supporting 19,311 Jobs
- State construction investment **leverages nearly \$1.4 billion** in local government and private sector construction spending that **supports ~15,000 jobs**

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~52,000 Jobs Supported by State Capital Investment and Leveraged Dollars

FY 2013 Capital Budget Jobs Impact

	Jobs Supported by State Investments	Jobs Supported by Leveraged Funds	Jobs Supported by State Funds & Leveraged Funds
Public School Construction Program	4,603	7,046	11,649
Rental Housing Works Initiative	102	1,053	1,155
Bay Restoration Fund	952		952
Bay Restoration Fund Revenue Enhancement	781		781
Transportation Capital Budget	19,311		19,311
CIP and Other Capital Spending	11,382	6,548	17,930
Total Jobs	37,131	14,647	51,778

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FY 13 Capital Budget = \$3.6 billion

Public Safety - \$102.3 million

- \$38.7 Million for State Police Helicopter replacement
- \$25.3 Million for a Statewide Wireless Communications System
- \$21.9 Million for Dundalk Armory Expansion
- \$9.1 Million for Correctional Facilities

Economic Development - \$73.5 million

- \$56.7 Million for One Maryland Broadband Network
- \$12.6 Million for Tourist and Cultural Attractions
- \$4.2 Million for Neighborhood BusinessWorks Program

Other Projects - \$180.8 Million

- \$15 Million for Rental Housing Works Initiative
- \$32.5 Million for affordable rental housing projects
- \$23.3 Million for Community Revitalization projects

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do believe we can nearly double the revenues from that Restoration Fund by adding a consumption component. In other words, some people might actually even see their monthly bill go down, and then we kind of peg it by the amount of water consumed in order to increase the enhancement there, which will also provide a consumption incentive to reduce consumption.

And that final one is the school construction and what the experience has been over several gubernatorial terms. That red line represents the recommendations made by the Kopp Commission on what we need to be investing in school construction in order to keep pace with the needs our children have for modern classrooms in order to gain a modern education and therefore compete in a modern economy.

I know that was a lot. We're joined also by John Griffin, Buddy Hance, Cathy Raggio here, our Secretary of our Department of Developmental Disabilities. And others. Any questions, thoughts?

FY 13 Capital Budget = \$3.6 billion

\$1.6 Billion for State Facilities and Capital Programs

Education - \$676.2 Million

- \$373 Million for Public School Construction
- \$245 Million for Public 4-Year Campuses
- \$44.4 Million for 20 Community College projects

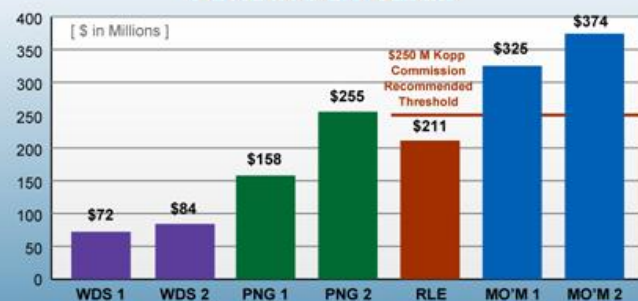
Health & Environment - \$623.7 Million

- \$203.5 Million for Bay Restoration projects
- \$255 Million for improvements to local water systems and wastewater treatment plants
- \$115.3 Million for Land Preservation Programs
- \$35.4 Million for Health-Related Projects, including funding for hospitals and community health facilities

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O'Malley-Brown Funding for Public School Construction Highest Ever

AVERAGE ANNUAL SCHOOL CONSTRUCTION FUNDING BY TERM



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